



2330 Central Expressway Santa Clara, CA 95050
W > www.covad.com

T > 408.844.7500

F > 408.844.7501

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EXCLUSIVE SECRETARY

Via Overnight Delivery

December 17, 1999

Tennessee Regulatory Authority
Attn: David Waddell, Executive Secretary
460 James Roberston Parkway
Nashville, TN 37243-0505

RE: Docket Number 99-00823
DIECA Communications, Inc. d/b/a Covad Communications
Company

Dear Mr. Waddell:

Following are the responses of DIECA Communications, Inc. d/b/a Covad Communications Company ("Applicant" or "Covad") to your data requests of December 7, 1999:

Financial

Please provide the following financial information concerning the financial requirements:

1. The cost of the proposed network, switches, or unbundled network elements (UNEs), etc.

Attached as Exhibit A hereto is the requested cost information.

2. Projected financial statements, including income statement, balance sheet, and statement of cash flows for the most recent fiscal or calendar year with a three (3) year capital budget outlining what specific equipment will be deployed, where it will be deployed, and its cost for its Tennessee operations.

Attached as Exhibit B hereto are copies of DIECA's projected financial statements.

FILE

3. Details of the funding for the Company's proposed network, equipment purchases, or payment for UNEs such as: (a) internally generated funds (cash, marketable securities); (b) letters of credit; (c) loan commitments; and (d) vendor credit.

Applicant will rely on funding from its parent company, Covad Communications Group, Inc. ("CCGI"), to assist it during its start-up phase. Attached hereto as Exhibit C is a copy of the most recent quarterly report of CCGI as filed with the Securities and Exchange Commission.

4. Information regarding whether reciprocal compensation for terminating ISP traffic is included in the financial statements. If yes, quantify.

Reciprocal compensation for terminating ISP traffic is not included in the financial statements as DIECA does not participate in reciprocal compensation.

Technical

1. Applicant should provide information concerning the network it proposes to provision in Tennessee such as:
 - (a) Geographic area proposed
 - (b) Location of switches
 - (c) How its network will be deployed
 - (d) Type of equipment proposed

Applicant intends to provide service throughout the State of Tennessee. At this time, Applicant does not have a proposed location for its switch(es) in Tennessee but will provide this information to the TRA once it becomes available. Covad proposes to collocate its equipment in the ILEC's central offices throughout Tennessee. Please see Exhibit D for a description of Covad's network and technical equipment to be deployed.

2. Address whether Tennessee customers will be required to purchase CPE which could not be used with ILEC systems if the customer should decide to go back to the ILEC, for whatever reason.

Customers of Covad's proposed services are required to have CPE which ultimately may or may not be compatible with ILEC systems. Covad proposes to work with thusly affected customers on an individual case basis.

FILE

TRA Rules for Local Telecommunications Providers

Applicant should provide a statement that notice of its application has been served on all eighteen (18) incumbent local exchange telephone companies in Tennessee. The TRA needs a written certificate of service from the applicant.

A Certificate of Service is attached hereto as Exhibit E.

Toll Dialing Parity Plan

The applicant must file an appropriate toll dialing parity plan for the TRA's consideration with this application.

At this time, Applicant does not propose to provide voice or dial tone services. Should Applicant propose to offer such service in the future, a dialing parity plan shall be submitted for review.

Miscellaneous

1. Notarized pre-filed testimony is needed for CLEC applications. The testimony should describe the services to be provided, the applicant's technical, managerial, and financial abilities to provide the services and affirm that all information submitted is true and correct.

The prefiled testimony is attached hereto as Exhibit F. Please note that the notarized signature page will be filed under separate cover.

3. Information regarding if the Applicant has been involved in any mergers, acquisitions, etc? (Provide a chart reflecting the applicant's corporate structure)

Applicant has not been involved in any mergers or acquisitions to date. A corporate organizational chart is attached as Exhibit G.

4. The applicant should file their official tariff subsequent to the application's approval.

Applicant will follow all applicable tariff-filing rules subsequent to approval of the immediate application.

5. A Wireline Activity Report should be submitted to the TRA on a monthly basis for applicant's providing voice grade service.

Applicant shall submit all applicable Wireline Activity Reports to the TRA should it commence offering voice grade service.

6. Information regarding any complaints against the Company where the company is active.

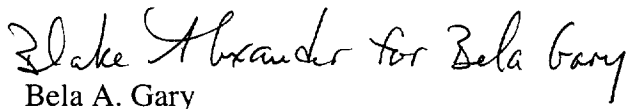
There are no outstanding complaints against the Applicant. The natures of two minor complaints filed by end-users were both results of the ILEC repeatedly missing its service delivery and Firm Order Commitment ("FOC") dates. Both complaints have been resolved favorably.

Small and Minority Owned Telecommunications Business Participation Plan

Attached hereto as Exhibit H is a copy of Applicant's Small and Minority Owned Telecommunications Business Participation Plan.

Please feel free to contact me at (408) 844-7564 or via email at bgary@covad.com should you have any further questions.

Sincerely,


Bela A. Gary

Enc.

Exhibit A

Cost Information

CONFIDENTIAL

DIECA Communications, Inc.		Year 1	Year 2	Year 3	3 YR Total
Number of Central Offices		20	75	75	75
Subscribers (#)	New per month	272	134	132	538
	Total Per Central Office	272	406	538	538
New Equipment Required (\$K)					
	DSLAM	\$ 10,000	10,000	-	20,000
	Line Cards	\$ 210	57,120	28,140	27,720
					112,980
Revenue (per CO)					
	Activation Fee	\$ 293	79,696	39,262	38,676
	Monthly Revenue	\$ 134	194,606	554,394	766,388
	Total Revenue (per CO)		274,302	593,656	805,064
	Total Revenue (all CO's)		4,290,500	24,492,870	47,429,451
					76,212,821
Operating Costs					
	Customer Acq Cost	\$ 40	10,880	5,360	5,280
	Setup Costs	\$ 200	54,400	26,800	26,400
	Colocation	\$ 1,000	8,000	12,000	12,000
	Copper Lines	\$ 22	32,010	91,190	126,060
	Support (min/yr/sub)	80	5,196	14,804	20,464
	Lease Payments		-	-	-
	DS1/DS3 Lines		8,000	12,000	12,000
	Total Operating Costs (per CO)		118,486	162,154	202,204
	Total Operating Costs (all CO's)		1,995,603	8,860,820	12,940,509
					23,796,932
Equipment Payments					
	DSLAM Fixed		10,000	10,000	-
	DSLAM Variable		54,600	28,350	27,720
	Total Equipment (per CO)		64,600	38,350	27,720
	Total Equipment (all CO's)		1,150,250	3,898,550	3,030,500
					8,079,300
Colocation Setup		50,000	50,000	-	-
	Total CO Setup (all CO's)		1,625,000	2,125,000	-
					3,750,000
Total Costs (per CO)			233,086	200,504	229,924
	Total Costs (all CO's)		4,770,853	14,884,370	15,971,009
					35,626,232
Cash flow					
	Monthly Cashflow	(480,353)	9,608,500	31,458,442	40,586,589
	Cum Cash Flow	(480,353)	9,128,147	40,586,589	40,586,589

Exhibit B

Projected Financial Statements

DIECA

Operating Statement (proforma only)

(\$ in 000,s)

6 Months Ended June 30, 1999

	Per GL	Adj	Consol.
Revenue	1,468	0	1,468
Operating Expense	1,891	0	1,891
Sales, marketing, general and Admin	4,094	0	4,094
Depreciation Expense	1,268	0	1,268
Total operating expenses	7,253	0	7,253
Loss from operations	(5,785)	0	(5,785)
Interest income(expense)	0	(2,063)	(2,063)
Net Loss	(5,785)	(2,063)	(7,848)

Balance Sheet

As of June 30, 1999

(\$ in 000,s)

	Per GL	Adj	Consol.
ASSETS			
Current Assets	2,223		2,223
Fixed Assets (at cost)	43,174		43,174
Accumulated Depreciation	(1,981)		(1,981)
Other Assets	53		53
TOTAL ASSETS	43,469	0	43,469
LIABILITIES			
Inter-company Advance	47,988	2,327	50,315
Accrued Liabilities	2,324		2,324
Total Liabilities	50,312	2,327	52,639
Equity			
Additional Paid in Capital		0	0
Retained Earnings	(6,843)	(2,327)	(9,170)
Total Equity	(6,843)	(2,327)	(9,170)
TOTAL LIABILITIES & EQUITY	43,469	0	43,469

Exhibit C

Quarterly Report for the Period Ending September 30 ,1999

COVAD COMMUNICATIONS GROUP INC

Filing Type: 10-Q
Description: Quarterly Report
Filing Date: Nov 15, 1999
Period End: Sep 30, 1999

Primary Exchange: NASDAQ - National Market
System
Ticker: COVD

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934.

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1999.

Commission file number: 000-25271

COVAD COMMUNICATIONS GROUP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

77-0461529
(I.R.S. Employer
Identification Number)

2330 CENTRAL EXPRESSWAY
SANTA CLARA, CALIFORNIA
(Address of principal executive offices)

95050
(Zip Code)

(408) 844-7500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1)has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2)has been subject to such
filing requirements for the past 90 days. Yes ☒ No ☐

As of November 9, 1999, 96,573,005 shares of the Registrants Common Stock,
\$0.001 par value, were issued and outstanding.

COVAD COMMUNICATIONS GROUP, INC.
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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

COVAD COMMUNICATIONS GROUP, INC.

CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN 000'S, EXCEPT SHARE AND PER SHARE AMOUNTS)

	SEPTEMBER 30, 1999 (UNAUDITED)	DECEMBER 31, 1998 (NOTE 1)
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 181,803	\$ 64,450
Accounts receivable, net	10,996	1,933
Short term investments	36,698	--
Unbilled revenue	3,935	663
Inventories	7,753	946
Prepaid expenses	4,924	1,183
Other current assets	2,138	514
	-----	-----
Total current assets	248,247	69,689
PROPERTY AND EQUIPMENT:		
Networks and communication equipment	187,321	55,189
Computer equipment	15,616	4,426
Furniture and fixtures	2,206	1,119
Leasehold improvements	3,085	1,887
	-----	-----
	208,228	62,621
Less accumulated depreciation and amortization	(20,852)	(3,476)
	-----	-----
Net property and equipment	187,376	59,145
OTHER ASSETS:		
Restricted investments	63,473	225

Deposits	692	337
Deferred debt issuance costs (net)	12,693	8,112
Deferred charge (net)	22,622	--
Other long term assets	8,687	1,911
	-----	-----
Total other assets	108,167	10,585
	-----	-----
Total assets	\$ 543,790	\$ 139,419
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY (NET CAPITAL DEFICIENCY)

CURRENT LIABILITIES:

Accounts payable	\$ 36,880	\$ 14,975
Unearned revenue	3,195	551
Accrued network costs	8,895	1,866
Other accrued liabilities	13,691	3,854
Current portion of capital lease obligations	294	263
	-----	-----
Total current liabilities	62,955	21,509
Long-term debt (net of discount)	368,922	142,300
Long-term capital lease obligations	88	316
	-----	-----
Total liabilities	431,965	164,125

STOCKHOLDERS' EQUITY (NET CAPITAL DEFICIENCY):

Convertible preferred stock (\$0.001 par value):		
Authorized shares--0 at September 30, 1999 and		
30,000,000 at December 31, 1998,		
Issued and outstanding shares--0 at September 30, 1999		
and 18,246,162 at December 31, 1998	--	18
Preferred stock (\$0.001 par value):		
Authorized shares--5,000,000 at September 30, 1999 and		
0 at December 31, 1998,		
Issued and outstanding shares--0 at September 30, 1999		
and 0 at December 31, 1998	--	--
Common stock (\$0.001 par value):		
Authorized shares--190,000,000 at September 30, 1999		
and 65,000,000 at December 31, 1998,		
Issued and outstanding shares--72,919,240 at September		
30, 1999 and 17,660,995 at December 31, 1998	73	18
Common stock--Class B (\$0.001 par value):		
Authorized shares--10,000,000 September 30, 1999 and 0		
at December 31, 1998,		
Issued and outstanding shares--6,379,177 at September		
30, 1999 and 0 at December 31, 1998	6	--
Additional paid-in capital	274,092	30,679
Deferred compensation	(3,450)	(4,688)
Accumulated other comprehensive income	16,698	--
Accumulated deficit.....	(175,594)	(50,733)
	-----	-----
Total stockholders' equity (net capital deficiency) ...	111,825	(24,706)
	-----	-----
Total liabilities and stockholders' equity (net capital		
deficiency).....	\$ 543,790	\$ 139,419
	=====	=====

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
(AMOUNTS IN 000'S, EXCEPT SHARE AND PER SHARE AMOUNTS)
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
Revenues	\$ 19,141	\$ 1,565	\$ 35,570	\$ 2,560
Operating expenses:				
Network and product costs	16,694	1,355	32,219	2,316
Sales, marketing, general and administrative	37,697	10,681	80,786	17,231
Amortization of deferred compensation	1,008	1,837	3,895	2,695
Depreciation and amortization	10,593	738	23,911	1,348
Total operating expenses	65,992	14,611	140,811	23,590
Income (loss) from operations	(46,851)	(13,046)	(105,241)	(21,030)
Interest income (expense):				
Interest income	4,770	1,526	12,864	3,673
Interest expense	(12,024)	(5,037)	(32,484)	(10,904)
Net interest income (expense)	(7,254)	(3,511)	(19,620)	(7,231)
Net income (loss)	\$ (54,105)	\$ (16,557)	\$ (124,861)	\$ (28,261)
Preferred dividends	--	--	(1,146)	--
Net income (loss) available to common shareholders	\$ (54,105)	\$ (16,557)	\$ (126,007)	\$ (28,261)
Basic and diluted net income (loss) per common share	\$ (0.70)	\$ (1.84)	\$ (1.90)	\$ (3.51)
Weighted average shares used in computing basic and diluted net loss per share	77,082,969	9,017,415	66,368,810	8,062,386

The accompanying notes are an integral part of these financial statements.

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COVAD COMMUNICATIONS GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(AMOUNTS IN 000'S)
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998
NET CASH USED IN OPERATING ACTIVITIES	\$ (65,721)	\$ (4,196)
INVESTING ACTIVITIES:		
Purchase of restricted investments	(74,353)	(23)
Redemption of restricted investments	13,214	--
Purchase of investments	(20,000)	--
Deposits	(355)	(251)
Other long-term assets	(6,776)	(887)
Purchase of property and equipment	(145,607)	(32,303)

Net cash used in investing activities	(233,877)	(33,464)
FINANCING ACTIVITIES:		
Net proceeds from issuance of long-term debt and warrants	--	129,328
Net proceeds from issuance of long-term debt	205,049	--
Principal payments under capital lease obligations	(197)	(183)
Proceeds from common stock issuance, net of offering costs	152,176	13
Proceeds from preferred stock issuance	60,000	1,200
Preferred dividends	(77)	--
Net cash provided by financing activities	416,951	130,358
Net increase in cash and cash equivalents	117,353	92,698
Cash and cash equivalents at beginning of period	64,450	4,378
Cash and cash equivalents at end of period	\$ 181,803	\$ 97,076
	=====	=====
Supplemental disclosures of cash flow information:		
Interest paid	\$ 13,257	\$ 78
Supplemental schedule of non-cash investing and financing activities:		
Equipment purchased through capital leases	\$ --	\$ 34
Warrants issued for equity commitment	\$ --	\$ 2,928
Common stock issued for preferred dividends	\$ 1,069	--
	=====	=====

The accompanying notes are an integral part of these financial statements.

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COVAD COMMUNICATIONS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results may differ from those estimates. The consolidated financial statements of the Company include the accounts of all of its wholly-owned subsidiaries. There were no intercompany accounts and transactions which required elimination.

The consolidated financial statements at September 30, 1999 and for the three and nine month periods ended September 30, 1999 and 1998 are unaudited, but include all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of financial position and operating results. Operating results for the three and nine month periods ended September 30, 1999 and 1998 are not necessarily indicative of results that may be expected for any future periods.

The consolidated balance sheet at December 31, 1998 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The information included in this report should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's 1998 Annual Report on Form 10-K.

B. EARNINGS (LOSS) PER SHARE

Basic earnings per share is computed by dividing income or loss applicable to common shareholders by the weighted average number of shares of the Company's common stock ("Common Stock"), after giving consideration to shares subject to repurchase, outstanding during the period.

Diluted earnings per share is determined in the same manner as basic earnings per share except that the number of shares is increased assuming exercise of dilutive stock options and warrants using the treasury stock method and conversion of the Company's convertible preferred stock ("Preferred Stock"). In addition, income or loss is adjusted for dividends and other transactions relating to preferred shares for which conversion is assumed. The diluted earnings per share amount has not been reported because the Company has a net loss and the impact of the assumed exercise of the stock options and warrants and the assumed preferred stock conversion is not dilutive.

Under the Company's Certificate of Incorporation, all outstanding Preferred Stock converted into Common Stock on a one-for-one basis upon the completion of the Company's initial public offering of Common Stock (see note 5).

The consolidated financial statements applicable to the prior periods have been restated to reflect a two-for-one stock split effective May 1998, a three-for-two stock split effective August 1998, and a three-for-two stock split effective May 1999.

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The following table presents the calculation of basic and diluted net income (loss) per share (in thousands, except share and per share amounts):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
Net loss	\$ (54,105)	\$ (16,557)	\$ (124,861)	\$ (28,261)
Preferred dividends	--	--	(1,146)	--
Net loss available to common stockholders	\$ (54,105)	\$ (16,557)	\$ (126,007)	\$ (28,261)
Basic and diluted:				
Weighted average shares of common stock outstanding	81,835,344	17,383,540	72,020,379	17,169,006
Less: Weighted average shares subject to repurchase	4,752,375	8,366,125	5,651,569	9,106,620
Weighted average shares used in computing basic and diluted net income (loss) per share	77,082,969	9,017,415	66,368,810	8,062,386
Basic and diluted net income (loss) per share	\$ (0.70)	\$ (1.84)	\$ (1.90)	\$ (3.51)

2. COMPREHENSIVE INCOME

Comprehensive income for the three and nine months ended September 30, 1999 and 1998 was as follows (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
Net loss	\$ (54,105)	\$ (16,557)	\$ (124,861)	\$ (28,261)
Unrealized holding gains (losses)	(8,940)	--	16,698	--
Comprehensive income	\$ (63,045)	\$ (16,557)	\$ (108,163)	\$ (28,261)

3. SHORT-TERM INVESTMENTS

Short-term investments at September 30, 1999 consisted of the following (in thousands):

Equity position in WebMD, Inc.	\$	15,000
Equity position in Efficient Networks, Inc.		5,000
Unrealized holding gains (losses)		16,698

	\$	36,698

The costs of these investments are reflected on the balance sheet along with their related unrealized holding gain or loss in order to approximate fair market value.

4. DEBT

On February 18, 1999, the Company completed a private placement of \$215 million aggregate principal amount of the Company's 12 1/2% senior notes (the "1999 Notes") due 2009. The 1999 Notes are unsecured senior

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obligations of the Company maturing on February 15, 2009 and are redeemable at the option of the Company any time after February 14, 2004 at stated redemption prices plus accrued and unpaid interest thereon.

Net proceeds from the 1999 Notes were approximately \$205.1 million, after discounts, commissions and other transaction costs of approximately \$9.9 million. The discount and debt issuance costs are being amortized over the life of the 1999 Notes. For the nine months ended September 30, 1999, the amortization of debt discount and debt issuance costs was \$277,000 and \$316,000, respectively.

Concurrently with the closing of the offering, approximately \$74.1 million of the net proceeds was used to purchase government securities representing sufficient funds to pay the first six scheduled interest payments on the 1999 Notes. This reserve, along with earned interest, is recorded as restricted investments on the accompanying balance sheet.

On June 1, 1999, the Company completed an offer to exchange all outstanding 12 1/2% Senior Notes due February 15, 2009 for 12 1/2% Senior Notes due February 15, 2009, which have been registered under the Securities Act of 1933.

5. STOCKHOLDERS' EQUITY

COVAD COMMUNICATIONS GROUP, INC.

STRATEGIC INVESTMENT:

In January 1999, the Company entered into strategic relationships with AT&T Corp. ("AT&T"), NEXTLINK Communications, Inc. ("NEXTLINK") and Qwest Communications Corporation ("Qwest"). As part of these strategic relationships, the Company received equity investments totaling approximately \$60 million. The Company recorded intangible assets of \$28.7 million associated with these transactions which will be amortized over periods of three to six years.

INITIAL PUBLIC OFFERING:

On January 27, 1999, the Company completed the IPO of 13,455,000 split-adjusted shares of the Company's common stock at a split-adjusted price of \$12.00 per share. Net proceeds to the Company from the IPO were \$150.2 million

after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company. As a result of the IPO, 27,369,243 split-adjusted shares of Common Stock and 6,379,177 shares of Class B Common Stock (which are convertible into 9,568,765 split-adjusted shares of Common Stock) were issued upon the conversion of Preferred Stock, 89,058 split-adjusted shares of Common Stock were issued for cumulative but unpaid dividends on series A and series B Preferred Stock and 2,699,626 split-adjusted shares of Common Stock were issued upon the exercise of common warrants.

SECONDARY OFFERING:

On June 23, 1999, the Company completed a public offering of 8,625,000 shares of Common Stock sold by certain stockholders of the Company. The Company did not sell any shares in this offering. Accordingly, there were no net proceeds to the Company from this offering. The Company incurred offering expenses of approximately \$600,000.

On November 3, 1999 the Company completed a public offering of 14,950,000 shares of common stock sold by the Company and certain stockholders of the Company. The net proceeds to the Company from this offering are estimated to be approximately \$568.8 million after deducting underwriting discounts and commissions and estimated offering expenses.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE COMPANY SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND THE RELATED NOTES THERETO INCLUDED ELSEWHERE IN THIS FORM 10-Q AND THE CONSOLIDATED AUDITED FINANCIAL STATEMENTS AND NOTES THERETO AND MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1998 INCLUDED IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K. THIS DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THE ACCURACY OF WHICH INVOLVES RISKS AND UNCERTAINTIES. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THE FORWARD-LOOKING STATEMENTS FOR MANY REASONS INCLUDING, BUT NOT LIMITED TO, THOSE DISCUSSED HEREIN AND IN OUR REGISTRATION STATEMENT ON FORM S-1 (SEC FILE NO. 333-88757). WE DISCLAIM ANY OBLIGATION TO UPDATE INFORMATION CONTAINED IN ANY FORWARD-LOOKING STATEMENT OR IN THE REASONS WHY SUCH FORWARD-LOOKING STATEMENTS MAY DIFFER MATERIALLY FROM ACTUAL RESULTS, WHICH REASONS SPEAK AS OF THEIR DATES. SEE "FORWARD LOOKING STATEMENTS"

OVERVIEW

We are a leading provider of broadband communications services to Internet service provider, enterprise and telecommunications carrier customers. Since March 1998, we have raised \$569.0 million of gross proceeds from debt and equity financings to fund the deployment and expansion of our networks. As of September 30, we offered our services in 51 metropolitan statistical areas. We plan to build our networks and offer our services in a total of 100 metropolitan statistical areas nationwide. As of September 30, 1999, our networks passed 25 million homes and businesses, and we had installed 31,000 end-user lines.

In connection with our expansion within existing metropolitan statistical areas and into new metropolitan statistical areas, we expect to significantly increase our capital expenditures, as well as our sales and marketing expenditures, to deploy our networks and support additional end-users in those regions. Accordingly, we expect to incur substantial and increasing net losses for at least the next several years.

We derive revenue from monthly recurring service charges for connections from the end-user to our facilities and for backhaul services from our facilities to the customer; service order set-up and other non-recurring

charges; and the sale of customer premise equipment that we provide to our customers due to the general unavailability of customer premise equipment through retail channels.

We expect prices for the major components of both recurring and non-recurring revenues to decrease each year in part due to the effects of competitive pricing and future volume discounts. We believe our revenues from the sale of customer premise equipment will decline over time, as prices for such equipment decrease and customer premise equipment becomes more generally available. We expect that the prices we charge to customers for customer premise equipment will decrease each year.

The following factors comprise our network and service costs: Monthly non-recurring and recurring circuit fees - we pay traditional telephone companies and other competitive telecommunications companies non-recurring and recurring fees for services including installation, activation, monthly line costs, maintenance and repair of circuits between and among our digital subscriber line access multiplexers and our regional data centers, customer backhaul, and end-user lines. As our end-user base grows, we expect that the largest element of network and product cost will be the traditional telephone companies' charge for our leased copper wires; and

Other costs - Other costs that we incur include those for materials in installation and the servicing of customers and end-users, and the cost of customer premise equipment.

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The development and expansion of our business will require significant expenditures. The principal capital expenditures incurred during the buildup phase of any metropolitan statistical area involve the procurement, design and construction of our central office cages, end-user DSL line cards, and expenditures for other elements of our network design. Currently, the average cost to deploy our facilities in a central office, excluding end-user line cards, is approximately \$85,000 per central office facility. This cost may vary in the future due to the quantity and type of equipment we initially deploy in a central office facility as well as regulatory limitations imposed on the traditional phone companies relative to pricing of central office space, including cageless physical collocation. Following the buildout of our central office space, the major portion of our capital expenditures is the purchase of line cards to support incremental end-users. We expect that the average cost of such line cards will decline over the next several years. Network expenditures will continue to increase with the number of end-users. However, once an operating region is fully built out, a substantial majority of the regional capital expenditures will be tied to incremental customer and end-user growth. In addition to developing our networks, we will use our capital for marketing our services, acquiring Internet service provider, enterprise, and telecommunication carrier customers, and funding our customer care and field service operations.

In connection with rolling out service on a national basis we have commenced a branding campaign to differentiate our service offerings in the marketplace. As a result, we expect our selling, general and administrative expenses to increase significantly in future periods as we implement increased marketing efforts as part of the campaign.

RECENT DEVELOPMENTS

On November 3, 1999, we completed a public offering of 14,950,000 shares of common stock at a price of \$43.00 per share, 13,655,000 shares of which were sold by the Company and the remaining 1,295,000 shares by certain stockholders of the Company. We received proceeds of \$568.8 million after deducting underwriting commissions and expenses.

RESULTS OF OPERATIONS

REVENUES

We recorded revenues of \$19.1 million for the three months ended September 30, 1999 compared to \$1.6 million for the three months ended September 30, 1998. Revenue was \$35.6 million for the nine months ended September 30, 1999 compared to \$2.6 million for the nine months ended September 30, 1998. This increase is attributable to growth in the number of customers and end-users resulting from our increased sales and marketing efforts and the expansion of our national network. We expect revenues to increase in future periods as we expand our network within our existing regions, deploy networks in new regions and increase our sales and marketing efforts in all of our regions.

NETWORK AND PRODUCT COSTS

We recorded network and product costs of \$16.7 million for the three months ended September 30, 1999 and \$1.4 million for the three months ended September, 1998. Network and product costs were \$32.2 million for the nine months ended September 30, 1999 and \$2.3 million for the nine months ended September 30, 1998. This increase is attributable to the expansion of our networks and increased orders resulting from our sales and marketing efforts. We expect network and product costs to increase significantly in future periods due to increased sales activity and expected revenue growth.

SALES, MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES

Sales, marketing, general and administrative expenses consist primarily of salaries, expenses for the development of our business, the development of corporate identification, promotional and advertising materials, expenses for the establishment of our management team, and sales commissions. Sales, marketing, general and administrative expenses were \$37.7 million for the three months ended September 30, 1999 and \$10.7 million for the three months ended September 30, 1998. Sales, marketing, general and administrative expenses were \$80.8 million for the nine months ended September 30, 1999 and \$17.2 million for the nine months ended September 30, 1998.

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This increase is attributable to growth in headcount in all areas of our company, continued expansion of our sales and marketing efforts, deployment of our networks and building of our operating infrastructure. Sales, marketing, general and administrative expenses are expected to increase significantly as we continue to expand our business.

DEFERRED COMPENSATION

Through September 30, 1999, we recorded a total of approximately \$11.6 million of deferred compensation, with an unamortized balance of approximately \$3.5 million on our September 30, 1999 consolidated balance sheet. Deferred compensation is a result of us granting stock options to our employees, certain of our directors, and certain contractors with exercise prices per share below the fair values per share for accounting purposes of our common stock at the dates of grant. We are amortizing the deferred compensation over the vesting period of the applicable option using the graded vesting method. Amortization of deferred compensation was \$1.0 million for the three months ended September 30, 1999 and \$1.8 million for the three months ended September 30, 1998. Amortization of deferred compensation was \$3.9 million for the nine months ended September 30, 1999 and \$2.7 million for the nine months ended September 30, 1998.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization includes depreciation of network costs and related equipment; depreciation of information systems, furniture and fixtures; amortization of improvements to central offices, regional data centers and

network operations center facilities and corporate facilities; amortization of capitalized software costs; and amortization of intangible assets.

In January 1999, we recorded intangible assets of \$28.7 million from the issuance of preferred stock to AT&T Ventures, NEXTLINK and Qwest. Amortization of these assets was \$2.1 million and \$6.1 million during the three and nine months ended September 30, 1999, respectively, and is included in depreciation amortization on the accompanying consolidated statement of operations. Annual amortization of these assets will be approximately \$8.4 million in each of the years in the three year period ending December 31, 2001, decreasing to approximately \$1.2 million per year for each subsequent year through the year ending December 31, 2004.

Depreciation and amortization was approximately \$10.6 million for the three months ended September 30, 1999 and \$738,000 for the three months ended September 30, 1998. Depreciation and amortization was approximately \$23.9 million for the nine months ended September 30, 1999 and \$1.3 million for the nine months ended September 30, 1998. This increase was due to the increase in equipment and facilities placed in service throughout the period as well as amortization of intangible assets. We expect depreciation and amortization to increase significantly as we increase our capital expenditures to expand our networks.

NET INTEREST INCOME AND EXPENSE

Net interest income and expense consists primarily of interest income on our cash balance and interest expense associated with our debt. Net interest expense for the three and nine months ended September 30, 1999, was \$7.3 million and \$19.6 million, respectively. Net interest expense during these periods consisted primarily of interest expense on the 1998 notes and the 1999 notes and capital lease obligations partially offset by interest income earned primarily from the investment of the proceeds raised from the issuance of the 1998 notes and the 1999 notes as well as our initial public offering and our issuance of preferred stock to AT&T Ventures, NEXTLINK and Qwest. Net interest expense for the three and nine months ended September 30, 1998, was \$3.5 million and \$7.2 million, respectively. Net interest expense during these periods consisted primarily of interest expense on the 1998 notes and capital lease obligations, partially offset by interest income earned primarily from the investment of the proceeds raised from the issuance of the 1998 notes. We expect interest expense to increase significantly over time, primarily because the 1998 notes accrete to \$260 million by March 15, 2003.

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LIQUIDITY AND CAPITAL RESOURCES

Our operations have required substantial capital investment for the procurement, design and construction of our central office cages, the purchase of telecommunications equipment and the design and development of our networks. capital expenditures were approximately \$145.6 million for the nine months ended September 30, 1999. We expect that our capital expenditures will be substantially higher in future periods in connection with the purchase of infrastructure equipment necessary for the development and expansion of our networks and the development of new regions. We have also recently begun a branding campaign to increase recognition of our name which we expect to incur substantial additional expenses over the next 12 months.

From our inception through September 30, 1999, we financed our operations primarily through private placements of \$10.6 million of equity securities, \$129.3 million in net proceeds raised from the issuance of the 1998 notes, \$150.2 million in net proceeds raised from our initial public offering, \$60.0 million in net proceeds raised from strategic investors and \$205.1 million in net proceeds raised from the issuance of the 1999 notes. As of September 30, 1999, we had an accumulated deficit of \$175.6 million, and cash and cash equivalents of \$181.8 million.

Net cash used in our operating activities was \$65.7 million for the nine months ended September 30, 1999. The net cash used for operating activities during this period was primarily due to net losses and increases in current assets, offset by non-cash expenses and increases in accounts payable and accrued liabilities. Net cash used in our investing activities was \$233.9 million for the nine months ended September 30, 1999. The net cash used for investing activities during this period was primarily due to purchases of property and equipment, the purchase of \$74.1 million of restricted investments which were pledged as collateral for the payment of the first six scheduled interest payments on the 1999 notes, and an aggregate \$20 million equity investment made in WebMD, Inc. and Efficient Networks, Inc.

Net cash provided by financing activities for the nine months ended September 30, 1999 was \$417.0 million which primarily related to the following: Equity investments of \$25 million from AT&T Ventures, \$20 million from NEXTLINK and \$15 million from Qwest, representing an aggregate equity investment of \$60 million. Net proceeds of \$150.2 million from our initial public offering of 13,455,000 split-adjusted shares of our common stock at a split-adjusted initial public offering price of \$12.00 per share. Net proceeds of \$205.0 million from the issuance of the 1999 notes with an aggregate principal amount of \$215.0 million.

Net cash provided by financing activities was partially offset by an estimated \$680,000 in offering costs applicable to our secondary offering of 7,500,000 shares in June 1999 for which we received no proceeds.

We believe that our current cash, cash equivalents and short-term investments, including the proceeds received from our recently completed secondary offering in November 1999, will be sufficient to meet our anticipated cash needs for working capital and capital expenditures through at least the end of 2000.

We expect to experience substantial negative cash flow from operating activities and negative cash flow before financing activities for at least the next several years due to continued development, commercial deployment and expansion of our networks. We may also make investments in and acquisitions of businesses that are complementary to ours to support the growth of our business. Our future cash requirements for developing, deploying and enhancing our networks and operating our business, as well as our revenues, will depend on a number of factors including:

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the number of regions entered, the timing of entry and services offered; network development schedules and associated costs; the rate at which customers and end-users purchase our services and the pricing of such services; the level of marketing required to acquire and retain customers and to attain a competitive position in the marketplace; the rate at which we invest in engineering and development and intellectual property with respect to existing and future technology; and unanticipated opportunities.

We will be required to raise additional capital, the timing and amount of which we cannot predict. We expect to raise additional capital through debt or equity financings, depending on market conditions, to finance the continued development, commercial deployment and expansion of our networks and for funding operating losses or to take advantage of unanticipated opportunities. If we are unable to obtain required additional capital or are required to obtain it on terms less satisfactory than we desire, we may be required to delay the expansion of our business or take or forego actions, any or all of which could harm our business.

In addition, we may wish to selectively pursue possible acquisitions of or investments in businesses, technologies or products complementary to ours in the future in order to expand our geographic presence and achieve operating

efficiencies. We may not have sufficient liquidity, or we may be unable to obtain additional debt or equity financing on favorable terms or at all, in order to finance such an acquisition or investment.

YEAR 2000 ISSUES

Many currently installed computer systems and software products are coded to accept only two-digit entries in the date code field and cannot distinguish 21st century dates from 20th century dates. These date code fields will need to distinguish 21st century dates from 20th century dates and, as a result, many companies' software and computer systems may need to be upgraded or replaced in order to comply with such "Year 2000" requirements.

We have reviewed our internally developed information technology systems and programs and believe that our systems are Year 2000 compliant and that there are no significant Year 2000 issues within our systems or services. We have not reviewed our non-information technology systems for Year 2000 issues relating to embedded microprocessors. To the extent that such issues exist, these systems may need to be replaced or upgraded to become Year 2000 compliant. We believe that our non-information technology systems will not present any significant Year 2000 issues, although there can be no assurance in this regard. In addition, we utilize third-party equipment and software and interact with traditional telephone companies that have equipment and software that may not be Year 2000 compliant. Failure of such third-party or traditional telephone company equipment or software to operate properly with regard to the year 2000 and thereafter could require us to incur unanticipated expenses to remedy any problems, which could have a material adverse effect on our business, prospects, operating results and financial condition.

Furthermore, the purchasing patterns of our Internet service provider and enterprise customers may be affected by Year 2000 issues as companies expend significant resources to correct their current systems for Year 2000 compliance. These expenditures may result in reduced funds available for our services, which could have a material adverse effect on our business, prospects, operating results and financial condition.

We are currently assessing the Year 2000 risks associated with our third-party or traditional telephone company equipment or software or with our Internet service provider and enterprise customers. We are evaluating the risks associated with the reasonably likely worst case scenario, but we have not made any contingency plans to address such risks. However, we intend to devise a Year 2000 contingency plan prior to December 31, 1999.

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FORWARD LOOKING STATEMENTS

The statements contained in this report that are not historical facts are "forward-looking statements" (as such term is defined in Section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934), which can be identified by the use of forward-looking terminology such as "estimates," "projects," "anticipates," "expects," "intends," "believes," or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. Examples of such forward-looking statements include:

our plans to expand our existing networks or to commence service in new MSA's; estimates regarding the timing of launching our service in new MSA's expectations as to pricing for our services in the future; the possibility that we may obtain significantly increased sales volumes; the impact of our national advertising campaign on brand recognition and operating results; the estimates of future operating results; our anticipated capital expenditures; and other statements contained in this report regarding matters that are not historical facts.

These statements are only estimates or predictions and cannot be relied upon. We can give you no assurance that future results will be achieved. Actual events or results may differ materially as a result of risks facing us or actual results differing from the assumptions underlying such statements. Such risks and assumptions that could cause actual results to vary materially from the future results indicated, expressed or implied in such forward-looking statements include our ability to: successfully market our services to current and new customers; generate customer demand for our services in the particular regions where we plan to market services; achieve favorable pricing for our services; respond to increasing competition; manage growth of our operations; and access regions and negotiate suitable interconnection agreements with the traditional phone companies, all in a timely manner, at reasonable costs and on satisfactory terms and conditions consistent with regulatory, legislative and judicial developments.

All written and oral forward-looking statements made in connection with this report which are attributable to us or persons acting on our behalf are expressly qualified in their entirety by the "Risk Factors" and other cautionary statements included in our registration statement on Form S-3 (Commission File No. 333-88757). We disclaim any obligation to update information contained in any forward-looking statement.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to financial market risk, including changes in interest rates and marketable equity security prices, relates primarily to our investment portfolio and outstanding debt obligations. We typically do not attempt to reduce or eliminate our market exposure on our investment securities because a substantial majority of our investments are in fixed-rate, short-term securities. We do not have any derivative instruments. The fair value of our investments portfolio or related income would not be significantly impacted by either a 100 basis point increase or decrease in interest rates due mainly to the fixed-rate, short-term nature of the substantial majority of our investment portfolio. In addition, substantially all of our outstanding indebtedness at September 30, 1999 including our 1998 notes and our 1999 notes, is fixed-rate debt.

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COVAD COMMUNICATIONS GROUP, INC.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are engaged in a variety of negotiations, arbitrations and regulatory and court proceedings with multiple traditional telephone companies. These negotiations, arbitrations and proceedings concern the traditional telephone companies' denial of physical central office space to us in certain central offices, the cost and delivery of central office spaces, the delivery of transmission facilities and telephone lines, billing issues and other operational issues. For example, we are currently involved in commercial arbitration proceedings with Pacific Bell over these issues. We have also filed a lawsuit against Pacific Bell and its affiliates, including Southwestern Bell Telephone Company, in federal court. We are pursuing a variety of contract, tort, antitrust and other claims, such as violations of the Telecommunications Act, in these proceedings. In November 1998, we prevailed in our commercial arbitration proceeding against Pacific Bell. The arbitration panel found that Pacific Bell breached its interconnection agreement with us and failed to act in good faith on multiple counts. The arbitration panel ruled in favor of awarding us direct damages, as well as attorneys' fees and costs of the arbitration. Pacific Bell is currently attempting to have the decision vacated. Meanwhile, the arbitration panel is evaluating our claim for additional damages. We have also filed a lawsuit against Bell Atlantic and its affiliates in federal court. We are pursuing antitrust and other claims in this lawsuit. In addition, Bell Atlantic has separately filed suit against us asserting infringement of a patent issued to them in September 1998 entitled "Variable Rate and Variable Mode Transmission System". We believe that we do not infringe the Bell Atlantic patent and have defenses to infringement and liability. However, litigation is inherently unpredictable and there is no guarantee that we will prevail. Failure to resolve the various legal disputes and controversies between us and the various traditional telephone companies without excessive delay and cost and in a manner that is favorable to us could harm our business.

We are not currently engaged in any other legal proceedings that we believe could have a material adverse effect on our business, prospects, operating results and financial condition. We are, however, subject to state commission, FCC and court decisions as they relate to the interpretation and implementation of the 1996 Telecommunications Act, the interpretation of competitive telecommunications company interconnection agreements in general and our interconnection agreements in particular. In some cases, we may be deemed to be bound by the results of ongoing proceedings of these bodies or the legal outcomes of other contested interconnection agreements that are similar to our agreements. The results of any of these proceedings could harm our business.

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ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

In June 1999, we issued 7,307,317 shares of common stock upon the exercise of warrants that were issued in connection with the offering of our 1998 notes. The issuance of these shares was pursuant to the "net exercise" of the warrants and, therefore, we received no cash proceeds from the issuance of the shares. The shares were issued in reliance on an exemption from registration under the Securities Act provided by Section 4(2) of such act and the rules and regulation promulgated thereunder.

Of these shares, 7,088,654 were sold by the holders in a registered public offering under the Securities Act that was underwritten by a syndicate of underwriters led by Bear, Stearns & Co. Inc, Morgan Stanley & Co. Incorporated, Credit Suisse First Boston Corporation, Deutsche Bank Securities Inc., Donaldson, Lufkin & Jenrette Securities Corporation and Wit Capital Corporation.

In January 1999, we commenced and completed a firm commitment underwritten initial public offering of 13,455,000 split-adjusted shares of our common stock, including 1,755,000 split-adjusted shares related to the underwriter's over-allotment option, at a split-adjusted price of \$12.00 per share. The shares were registered with the Securities and Exchange Commission pursuant to a registration statement on Form S-1 (No. 333-63899), which was declared effective

on January 21, 1999. The public offering was underwritten by a syndicate of underwriters led by Bear, Stearns & Co. Inc., BT Alex. Brown Incorporated, Donaldson, Lufkin & Jenrette Securities Corporation and Goldman, Sachs & Co., as their representatives. After deducting underwriting discounts and commissions of \$10.0 million and expenses of \$1.2 million, we received net proceeds of \$150.2 million.

As of September 30, 1999, we had invested the net proceeds from our initial public offering in short- and long-term investments in order to meet anticipated cash needs for future working capital. We invested our available cash principally in high-quality corporate issuers and in debt instruments of the U.S. Government and its agencies. The use of proceeds from the offering does not represent a material change in the use of proceeds described in the Registration Statement. None of the net proceeds of the offering were paid directly or indirectly to any director, officer, general partner of Covad or their associates, persons owning 10 percent or more of any class of equity securities of Covad, or an affiliate of Covad.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits:

Exhibit Number	Description of Exhibit
-----	-----
27.1	Financial Data Schedules for the nine months ended September 30, 1999.

b. Reports on Form 8-K

There have been no reports on Form 8-K filed during the quarter ended September 30, 1999.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COVAD COMMUNICATIONS GROUP, INC.

Date: November 4, 1999

BY: /s/ Timothy P. Laehy

Timothy P. Laehy
Chief Financial Officer
(Principal Financial
and Accounting Officer)

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INDEX TO EXHIBITS

Exhibit Number	Description of Exhibit
-----	-----
27.1	Financial Data Schedules for the nine months ended September 30, 1999.

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EX-27.1

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FINANCIAL DATA SCHEDULE

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1000

9-MOS

Dec-31-1999

Jan-01-1999

Sep-30-1999

181,803

36,698

12,678

1,682

7,753

248,247

208,228

20,852

543,790

62,955

368,922

0

0
79
111,746
543,790
35,570
35,570
32,219
32,219
108,592
0
32,484
(124,861)
0
(124,861)
0
0
0
(124,861)
(1.90)
(1.90)

Exhibit D

Technical Information



The Internet as it should be.™

[DSL Showcase](#)
[Services](#)
[Support](#)
[DSL Store](#)
[Inside Covad](#)
[Home](#)
[Services Guide](#)
[Technical Info](#)
[Covad Network](#)
[Qualified Equipment](#)
[Glossary](#)
[Q&A](#)

Limited Time Offer

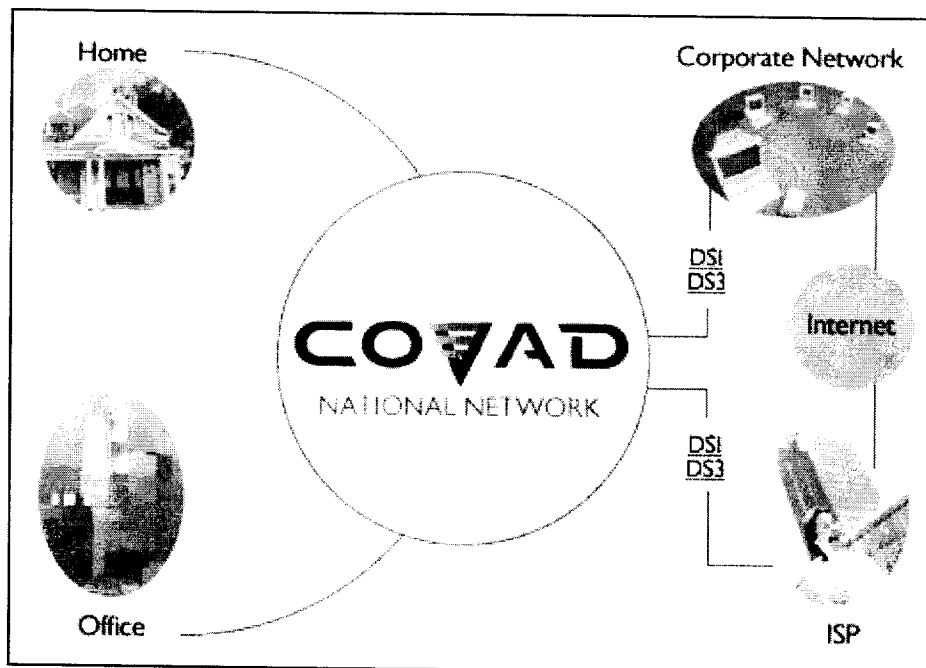
► **Save \$150**
 When You
 Connect with
COVAD

[View Details](#)

Technical Info

Covad's™ high speed access services are delivered over a reliable, secure, and fully managed national network. Covad owns, operates and maintains all the equipment in its network.

Covad also provides complete set-up services. Professional and courteous Field Service Technicians are available to come to your home or business to get you up and running as quickly and easily as possible.



For those who want to get "under the hood" to better understand our services, here's a brief technical overview of the Covad™ Network.

- [The Covad Network](#)
- [Covad Qualified Equipment](#)

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The Covad Network

Covad has built a highly reliable, secure network using the latest and best network equipment.

Architecture

Covad's secure Layer 2 packet based network uses ATM and Frame Relay Permanent Virtual Circuits (PVCs) to encapsulate and transport user data. The PVC imposes no restrictions on IP addressing and provides a private path to the end-user's PC. Covad does not use the public Internet to transport data.

The Covad Network supports multiple protocols for routing and bridging. In addition, Covad owns and manages all network equipment collocated within existing ILEC central offices in the network.

Management and Performance

- Covad has a Network Operations Center (NOC) that is staffed by knowledgeable Covad employees who are responsible for monitoring network elements 24 hours/day, 7 days/week.
- The network is proactively monitored, minimizing faults that can affect customers.
- The network availability target for all circuits is 99.9%.

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Covad Qualified Equipment

Covad Qualified DSL Routers

Equipment Provided by Covad	Covad Service Supported
Flowpoint 2200 Router	TeleSpeed 192, 384, 786, 1.1
Flowpoint 144 Router	TeleSpeed 144
Efficient Networks 5250 SpeedStream DSL Modem	TeleSpeed 192, 384, 786, 1.1, TeleSurfer, TeleSurfer Pro
Flowpoint 2100 ADSL Router	TeleSpeed 1.5

Other Qualified Equipment

If Provided by ISP/Customer	Covad Service Supported
Ascend Pipeline 50/75* (not supplied by Covad)	TeleSpeed 144 (P50/75 only delivers 128K service)
Cisco 700 series routers (not supplied by Covad)	TeleSpeed 144
Cisco 1604 router (not supplied by Covad)	TeleSpeed 144

* These routers must be configured for Frame Relay Encapsulation.

Covad Qualified Network Interface Cards (NICs or Ethernet Cards)

Any standard 10Base-T Ethernet card designed to function with your computer is acceptable.

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Exhibit E

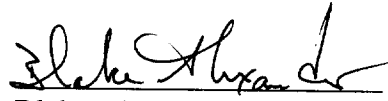
Certificate of Service

CERTIFICATE OF SERVICE

I, Blake Alexander, certify that I have on this 17th day of December, 1999, caused a copy of this **Notice of Application for a Certificate of Public Convenience and Necessity of DIECA Communications, Inc.** to be served on the parties on the attached service list, by placing a true copy thereof, enclosed in a sealed envelope, with postage thereon fully prepaid, in the U. S. Mail, at Santa Clara, California.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 17th day of December, 1999, at Santa Clara, California.


Blake Alexander

Service List

Ardmore Telephone Company, Inc.
Terry Wales, General Manager
P.O. Box 549
517 Ardmore Ave.
Ardmore, TN 38449

CenturyTel of Claiborne
G. Clay Bailey
Director of Regulatory Affairs
P.O. Box 4065
Monroe, LA 71211-4065

Citizens Telecommunications Company of the
Volunteer State
Mike Swatts
State Regulatory Director, South
P.O. Box 770
Bluefields, WV 24701

Sprint-United
Steve Parrett
Director – Regulatory Affairs
14111 Capital Blvd.
Wake Forrest, NC 27587-5900

Tellico Telephone Company, Inc.
John D. Feehan
Manager, External Relations
P.O. Box 22995
Knoxville, TN 37933-0995

People's Telephone Company, Inc.
Jim Wingo, General Manager
P.O. Box 7
Friendship, TN 38034

BellSouth Telecommunications, Inc.
Guy M. Hicks, General Counsel
333 Commerce St.
Nashville, TN 37201-3300

CenturyTel of Ooltewah-Collegedale
G. Clay Bailey
Director of Regulatory Affairs
P.O. Box 4065
Monroe, LA 71211-4065

Loretto Telephone Company, Inc.
Louise Brown, President
P.O. Box 130
Loretto, TN 38469

Concord Telephone Exchange, Inc.
John D. Feehan
Manager, External Relations
P.O. Box 22995
Knoxville, TN 37933-0995

Tennessee Telephone Company
John D. Feehan
Manager, External Relations
P.O. Box 22995
Knoxville, TN 37933-0995

West Tennessee Telephone
Company, Inc.
Jim Wingo, General Manager
P.O. Box 7
Friendship, TN 38034

CenturyTel of Adamsville
G. Clay Bailey
Director of Regulatory Affairs
P.O. Box 4065
Monroe, LA 71211-4065

Citizens Telecommunications Company of
Tennessee
Mike Swatts
State Regulatory Director, South
P.O. Box 770
Bluefields, WV 24701

Millington Telephone Company,
Inc.
W.S. Howard, President
4880 Navy Rd.
Millington, TN 38053

Humphreys County Telephone Company
John D. Feehan
Manager, External Relations
P.O. Box 22995
Knoxville, TN 37933-0995

Crockett Telephone Company, Inc.
Jim Wingo, General Manager
P.O. Box 7
Friendship, TN 38034

United Telephone Company
Herbert Bivens, General Manager
P.O. Box 38
120 Taylor St.
Chapel Hill, TN 37034

Exhibit F

Prefiled Testimony

BEFORE THE TENNESSEE REGULATORY AUTHORITY

In the Matter of the Application of)	
DIECA Communications, Inc.)	
d/b/a Covad Communications Company)	
For a Certificate Of Public Convenience and)	Docket No. 99-00823
Necessity To Provide Switched and Dedicated,)	
Resold and Facilities-Based Local Exchange)	
And Facilities-Based Interexchange Services)	
Within the State of Tennessee)	

PREFILED TESTIMONY OF DHRUV KHANNA

Q₁ PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A₁ My name is Dhruv Khanna and my business address is 2330 Central Expressway,
Santa Clara, CA 95050.

Q₂ BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY

A₂ I am Executive Vice President and General Counsel at Covad Communications
Company.

Q₃ PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
RELEVANT BUSINESS EXPERIENCE.

A₃ I graduated from Dartmouth College in 1983, obtaining a Bachelor of Arts degree,
with a double major in Economics and Government. In 1986, I graduated from Stanford
Law School with a JD.

I have been a practicing attorney for more than 10 years, specializing in
telecommunications law, regulation and public policy as well as business transactions
involving the Regional Bell Operation Companies (RBOCs) and other
telecommunications companies. I have represented such clients as Cable & Wireless,
Intel Corporation, McCaw Cellular Communications, Southern Pacific Telecom, and

Teleport Communications Group at more than 10 different state regulatory commissions, the Federal Communications Commission and the OFTEL. My communications law practice has included landline and wireless service issues and has involved local and long distance service providers. In addition, my practice has included efforts to open telecommunications markets to competition, obtain certificates and interconnection arrangements for local exchange competitors.

In addition to telecommunications matters, my practice has included both civil litigation and commercial transactions. My litigation experience has included prosecuting fraud, breach of contract, and tort cases for individuals, small and large businesses, and prosecuting, and defending against, appeals at the California Supreme Court and other courts. My transactional experience has included drafting and negotiating agreements with such companies as AT&T, Bell Atlantic, BellSouth, Compaq, Ericsson, IBM, NEC, NYNEX, Pacific Bell, and U S WEST. In addition, my transactional experience includes start-up company practice and commercial transactions that run the gamut from purchase and sales, co-marketing and technology licensing agreements.

I was involved in efforts on behalf of Intel Corporation to shape various provisions of the Federal Telecommunications Act of 1996. I was Senior Communications Attorney at Intel Corp., and have also been the counsel for Intel's faxmodem, videoconferencing and Internet-related product lines. I have been the counsel for Intel's Corporate Business Development group, focusing on business arrangements involving the RBOCs and business opportunities created by the Telecommunications Act of 1996.

Q₄ WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A₄ My testimony is submitted in support of DIECA Communications, Inc.'s application for a license to provide basic local exchange service as described in the Application.

Q₅ PLEASE ADDRESS HOW DIECA COMMUNICATIONS, INC.'S PROVISION OF BASIC LOCAL EXCHANGE SERVICE IS IN THE PUBLIC INTEREST.

A₅ It is DIECA's long term goal to become a nationwide provider of carrier access services, basic telephone service and enhanced local services, in full competition with existing local exchange carriers ("LECs"). DIECA does business in local markets as Covad Communications Company.

We have seen these benefits in both the interstate and long distance (lower rates, more options, higher quality services) and terminal equipment (fax machines now readily available redial buttons and the like) markets, and the Commission should likewise expect to see them when the local services market becomes effectively competitive.

For the reasons stated above, we believe that provision of basic local exchange service by DIECA is in the public interest.

Q₆ WILL GRANTING DIECA'S APPLICATION ADVERSELY AFFECT THE LIFELINE PROGRAM, THE AVAILABILITY OF EMERGENCY SERVICES OR ACCESS FOR PERSONS USING THE EQUIPMENT?

A₆ No, it will not. If granted authority to provide basic local exchange, DIECA will contribute to the support of lifeline and similar programs as required by the Commission. It will provide all customers will access to 911 emergency services where available; it will cooperate with existing and future licensed telecommunication providers to arrange

for the necessary interconnections to enable efficient completion of emergency calls; it will collect 911 service surcharges from its customers to contribute to the funding of these emergency services (on the same basis as the incumbent licensed exchange provider); and it will provide access through its switch to Telecommunications Relay Services for communications to and from persons using TDD equipment. These calls will be routed directly to the existing Tennessee Dual Relay Center.

Q₇ DOES DIECA INTEND TO PROVIDE TO EACH CUSTOMER LOCAL DIRECTORY ASSISTANCE, AN ANNUAL PRINTED TELEPHONE DIRECTORY AND 900 PREFIX BLOCKING.

A₇ Yes, it does. Obviously, these may be provided in conjunction with, or pursuant to arrangements negotiated with the incumbent license holder.

Q₈ PLEASE ADDRESS DIECA'S TECHNICAL, FINANCIAL AND MANAGERIAL RESOURCES AND ABILITIES TO PROVIDE BASIC LOCAL EXCHANGE SERVICE TO EVERY PERSON WITHIN THE GEOGRAPHIC AREA OF THE LICENSE.

A₈ DIECA is a wholly owned subsidiary of Covad Communications Group, Inc. Covad Communications Group, Inc. and its affiliates will provide all funds necessary for DIECA to provide the proposed basic local exchange service.

The ability of DIECA to make this commitment is illustrated by Covad Communications Group, Inc.'s most recent quarterly report.

DIECA and its affiliates have extensive and substantial managerial, technical and financial resources with respect to the provision of telecommunications services throughout the U.S. in general, and in the State of Tennessee in specific.

DIECA and its affiliated entities have the technical, financial and managerial resources to provide basic local exchange service to every person within the geographic area of the license. If demand for DIECA's basic local exchange service significantly exceeds projections, DIECA can acquire additional switching capacity as required.

Q₉ PLEASE ADDRESS THE QUALITY OF THE BASIC LOCAL EXCHANGE SERVICE WHICH DIECA INTENDS TO PROVIDE.

A₉ The quality of the basic local exchange service which DIECA intends to provide will be equal to or superior to the quality of the basic local exchange service that customers are already receiving from the incumbent provider.

Q₁₀ PLEASE ADDRESS THE PROPOSED SERVICES WHICH DIECA INTENDS TO PROVIDE.

A₁₀ DIECA will provide telecommunications services in Tennessee through a combination of its own facilities and unbundled network elements purchased from incumbent LECs. DIECA is a packet-based competitive provider of high-speed data communications services using digital subscriber line ("DSL") technology. The company's services enhance remote access from homes to enterprise local area networks ("LANs") and enable Internet Service Providers ("ISPs") to offer high-speed Internet access to their end-users. The company's services are provided over copper telephone lines at considerably faster speeds than are available through a standard modem. DIECA dba Covad will be one of the first Competing Local Providers to bring competitive local exchange service options to Tennessee consumers. Since the end-users of Covad services are corporation tele-workers and customers of ISPs, DIECA/Covad pursues an aggressive

build out strategy in residential neighborhoods, seeking to collocate in ILEC central offices that serve them.

Q₁₁ PLEASE ADDRESS ANY COMPLAINTS OF UNAUTHORIZED SWITCHING, OR “SLAMMING”, OR OTHER ILLEGAL ACTIVITIES OF THE APPLICANT OR ANY OF ITS AFFILIATES IN ANY JURISDICTION

A₁₁ No complaints have been made nor has any investigation been undertaken against DIECA or any of its affiliates for unauthorized switching (“slamming”) or any other illegal activities. DIECA will comply with Tennessee law and the Federal Communications Commission’s regulations regarding how carriers may change a consumer’s primary interchange carrier (“PIC”). DIECA will also comply with the FCC’s regulations regarding how carriers may change a consumer’s primary local exchange provider.

Q₁₂ DOES THIS COMPLETE YOUR TESTIMONY?

A₁₂ Yes, it does.

STATE OF CALIFORNIA

COUNTY OF SANTA CLARA

Dhruv Khanna, being first duly sworn, deposes and says: That he is the Vice President and Secretary for DIECA Communications, Inc., the applicant in the above proceeding; that he has read the foregoing testimony, and knows the contents thereof; and to verifies that the contents of the testimony are true and correct.

Dhruv Khanna
DIECA Communications, Inc.
2330 Central Expressway
Santa Clara, CA 95050
(408) 844-7500

Subscribed and sworn to before me this _____ day of _____, 1999

Notary Public
State of California

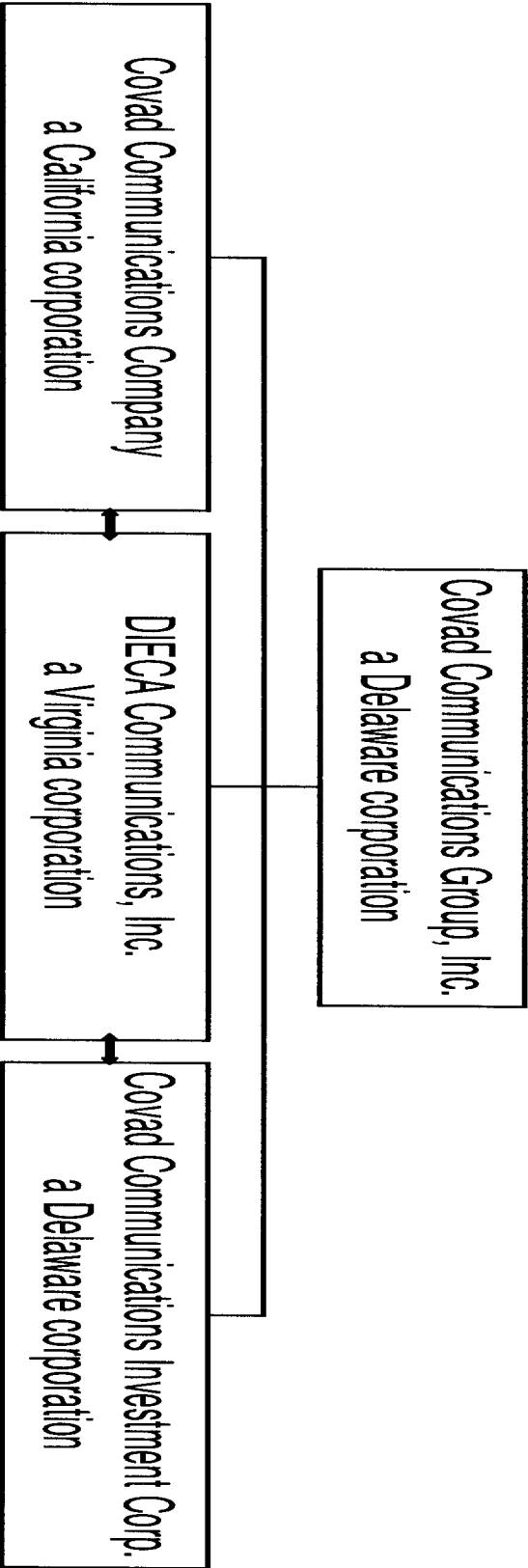
My commission expires: _____

Exhibit G

Corporate Organizational Chart

Covad Communications Group, Inc.

Organizational Chart



Covad Communications Company, DIECA Communications, Inc., and Covad Communications Investment Corp. are wholly-owned subsidiaries of Covad Communications Group, Inc. and are affiliates of one another.

Exhibit H

Small and Minority Owned Telecommunications Business Participation Plan

SMALL AND MINORITY OWNED TELECOMMUNICATIONS BUSINESS PARTICIPATION PLAN FOR DIECA COMMUNICATIONS, INC.

STATEMENT OF PURPOSE

Pursuant to TCA §65-5-212, DIECA will seek, to the maximum extent feasible, and with due regard to price and quality factors, to purchase goods and services from small and minority owned telecommunications businesses and to provide, to the maximum extent feasible, technical assistance to such businesses.

DIECA's goal shall be the full and equal participation of such businesses as defined by the Department of Economic and Community Development. DIECA shall strive to achieve the purchase of a percentage of the DIECA total annual need for Tennessee operations for goods and services from small and minority owned telecommunications businesses as defined by the Department of Economic and Community Development, which is equal to the percentage of small and minority owned telecommunications suppliers doing business in DIECA's service territory, providing such goods and services are offered on a market competitive basis.

This Plan is a statement of objectives and is not intended to create any legal obligation of DIECA.

PARTICIPATION PLAN

DIECA will advise all personnel of the existence of this Plan and of DIECA's goals established in this Plan.

DIECA designates Mary Kay Runyan, VP, Support Services, located at 8400 E. Crescent Parkway Suite 200, Greenwood Village, CO 80111, to have the responsibility of developing policies and procedures to allow for the success of DIECA's efforts to purchase goods and services from small and minority owned telecommunications businesses.

DIECA will establish targets to strive for in connection with reaching the annual goal of purchasing the established percentage of goods and services from small and minority owned telecommunications businesses.

DIECA will adopt a system for identification of small and minority owned businesses. Specifically, DIECA will prepare a form designated to determine the qualifications of any business with respect to its status as a small or minority owned telecommunications business. DIECA will notify, to the extent practicable, such businesses of the existence of this Plan. DIECA will invite bids, issue requests for proposals, or otherwise solicit offers and bids from such businesses.

DIECA will exercise diligence and sensitivity to ensure that opportunities to small and minority owned telecommunications businesses for doing business with DIECA are equivalent to those provided to those entities which are not small or minority owned.